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ABSTRACT

Rising unemployment and declining industrial productivity are major problems in the United States today. Four different strategies have been proposed for dealing with these problems. The free market approach promises economic prosperity by reducing the government's role and relying on the private sector. Advocates of this approach feel that it will produce more growth over the long run, but the price to be paid for such growth will include increased bankruptcies and unemployment. Advocates of a second strategy, a national industrial policy, argue that the government must take an active role in guiding the economy back to sustained growth. This policy would target investments in promising industries of the future and cushion the negative impact of such actions through job retraining and relocation assistance. Both the free-market and national industrial policy strategies are geared to the long term and both entail costs in the present. A third strategy proposes a redefined work contract--cooperation--between management and workers. This approach promises more growth and a fair chance of introducing new technology, but it could not be put into place overnight. Finally, the fourth proposed solution involves more protection for American industries and workers. Although this policy would require the fewest short-term sacrifices, it may worsen the long-term problem. A consensus must be developed among Americans about which strategy should be adopted and who will pay the price if American industry is to improve its performance. (KC)

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NATIONAL ISSUES FORUM

JOBS & PRODUCTIVITY

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As unemployment goes up, the problem of displaced workers becomes more and more important, and so does the question of what public policy should be with regard to the unemployed.

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Largely because we have yet to agree on how much we are willing to pay for economic revitalization or who shall bear its burden, we are far from agreeing on a program of action.

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1

INTRODUCTION: RISING UNEMPLOYMENT, AILING INDUSTRIES

> "Unemployment has been rising and productivity sagging. The changed circumstances of the 1980s seem to require a new formula for prosperity."

The harsh winter of 1981-82 pummeled the citizens of Middletown, Ohio with more than sub-zero temperatures, and blinding snow. The town's work force was chilled by a sharp blast of unemployment.

Situated in the rolling countryside of the southwestern corner of the state, halfway between Cincinnati and Dayton, Middletown had been heavily dependent on the health of the steel industry for nearly a hundred years. Armco, Inc., the nation's fourth-largest steel producer, had been its principal employer. Until last winter, despite one of the industry's worst recessions and a record number of layoffs, Armco had largely been a dependable employer.

Then, facing a 1981 operating loss of $11 million at the Middletown plant, Armco was forced to retrench. Over a three-month period, it laid off 1,100 workers, and virtually overnight Middletown's unemployment rate doubled to 11.5 percent. Union leader George Armour spoke for the workers: "They don't know what the hell is going on. Never before has the outlook of the men, the workers, been as bad as it is now." According to *Newsweek* magazine, "The rest of Middletown is also scared. Car sales are down, the real estate market is paralyzed, retailing is on the skids."

Over the past several years scores of communities throughout the nation — from the rural textile factory towns of the South, across the industrial heartland of the Midwest, to the Pacific Northwest — have had the same bitter experience.

In Dover, Tennessee, the local blue-jean factory shut down in the summer of 1981, throwing almost 300 workers out of jobs.

In Flint, Michigan, the birthplace of General Motors, nearly a quarter of the labor force was out of work by the spring of this year. Only two years earlier, Flint had the second-highest average pay of any city in the country.

In the sawmills and logging camps of Oregon, unemployment climbed to 25 percent. One-third of those still with jobs were working short shifts. Some workers were willing to accept all sorts of cutbacks, so long as they could continue working. *Newsweek* wrote: "Millwright Pete Matchulat took a 25 percent pay cut, gave up his pension benefits and medical insurance — and still lost his job."

Fewer and fewer workers seemed immune. In June 1982, the nation's unemployment went to 9.5 percent of the work force, the highest rate since 1941. Over 10 million workers were officially out of jobs. This number didn't include over a million Americans who had become so discouraged that they had simply stopped looking for work, or more than 5 million Americans who were

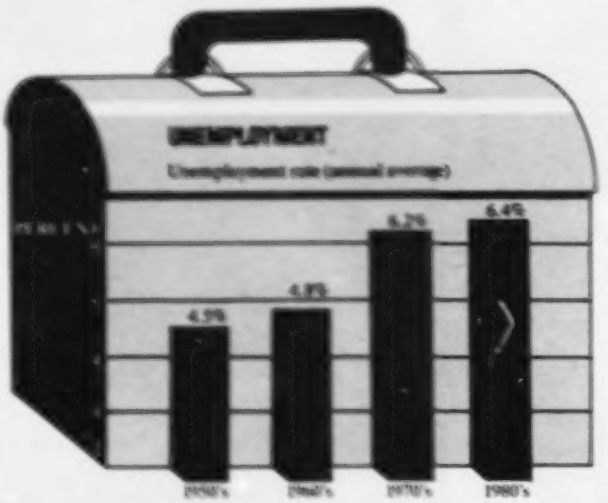
working only part-time against their wishes. Unemployment in the late Spring among adult men, teenagers, and blue-collar workers was greater than at any time since the Great Depression.

RISING UNEMPLOYMENT

For over 35 years, ever since President Truman signed into the law the Employment Act of 1946, full employment has been a formal goal of our national economic policy. Underlying the Act, and subsequent reaffirmations of it, has been the belief that every American who could and wanted to work should be provided an opportunity to do so. Though "full employment" has never been defined precisely, billions of dollars have been spent by both the public and private sectors on various efforts to make good on this commitment.

In fact our economy has been remarkably successful at creating new jobs. Between 1968 and 1980, total employment in the United States surged from 84 million to over 105, an increase of 20 million jobs.

Unfortunately, this exceptional record of job creation has not been sufficient to accommodate an even more dramatic rise in the number of Americans seeking work. With the children of the post-War baby boom reaching working age, and with millions of women entering the labor market for the first time, the expansion of the labor force has outstripped the creation of new jobs. The American labor force grew in size by an astounding 27 percent in the 1970s, compared to 11.6 percent in the 1950s and 18.1 percent in the 1960s.



Source: Bureau of Labor Statistics, 1980.

The most noticeable and troubling result is that the

FALLING BACKWARDS: THE FEAR OF UNEMPLOYMENT

"You remember the American dream?" Claude W. Williams asked casually. "Work hard, save your money, get an education, get ahead? I'm kind of discouraged in all that now."

Mr. Williams is now 33 and unemployed, laid off last August from the Ford Motor Company's huge Flat Rock foundry south of here. He is one of the tens of thousands of jobless automobile workers in this area.

He grew up on 12th Street, the cockpit of Detroit's old black ghetto and the center of the city's deadly riot in 1967, and he thought he had come a long way from there to the big brick house in northwest Detroit where he lives with his wife and two young sons.

"I didn't want to work in a factory," he said, "but the money was too good to pass up." A summer job at Ford between terms of teaching school 10 years ago gave way to full-time work at the hot, dirty foundry, where blacks like him have been concentrated since the dawn of the automobile age.

Mr. Williams finished his higher education at Wayne State University. Ford recognized his ability and paid for him to get a master's degree in industrial relations. His income rose from $8,000 to $16,000, and then to $49,000 one year when he joined management and worked weekends at the height of the boom in the late 1970s, before things started to go sour, before he was demoted back to laborer, before the layoffs began.

"I feel like I'm falling backwards," he added. "You climb up to heaven and fall back to hell."

He looked around his big living room at the chrome and glass, the African art, the warm comfort of home.

"I'm surrounded by all the things I've ever wanted," he said. "I wanted to escape from 12th Street, I wanted a big house with a big sofa to lie back in, I wanted a family and two cars and an educational background, and now I've got it all, but I don't have a job."

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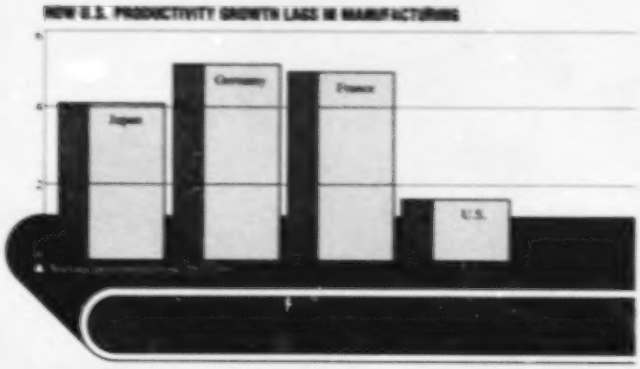


Source: Bureau of Labor Statistics, 1980.

basic or *underlying* rate of unemployment has moved steadily upward. "After each recession since 1970," reported *The Wall Street Journal*, "the unemployment rate has fallen to a higher plateau than before the slump." In the 1960s, economists, public officials and manpower specialists regarded an unemployment rate of 3-4 percent as "full employment" (assuming that there are always a certain number of people between jobs, in training or genuinely unemployable). Today many experts feel that after the recession unemployment will continue at a level of 6-7 percent.

Due largely to the decline in birth rates in the 1960s, the growth in the size of the labor force is expected to ease considerably in the 1980s. But the pressure for jobs is likely to continue, for the baby boom generation and the increased numbers of women will be a part of the work force through the year 2000.

THE IMPACT OF LAGGING PRODUCTIVITY

Complicating the problem is the fact that industries that have long served as the symbol of U.S. industrial might have been suffering from steadily declining sales. One result has been massive job layoffs. This is a phenomenon that goes beyond the periodic but temporary recessions. The troubled state of the automobile, steel, textile and consumer electronics industries are the most prominent examples.

Various factors contributed to that "industrial decline." Energy prices soared from less than $3 a barrel in 1972 to over $35 a barrel eight years later. Inflation was far higher in the 1970s than it had been a decade earlier. As a result, interest rates increased sharply — raising the costs of doing business and choking off new investment.

Increasingly, knowledgeable observers point to the decline in the growth rate of U.S. productivity as the heart of the problem. In the period from 1947 to 1965, productivity in the U.S. private business sector increased at an average annual rate of 3.0 percent. That is to say, each year we produced three per cent more than in the previous year. In the late 1960s, things started to change as that growth rate slowed down. Then in the late 1970s, we actually produced less in each year than we produced in the previous year. If that continues, the standard of living necessarily declines.

The United States still leads the world in productivity — defined as output per labor hour. But it is being overtaken by other advanced industrial nations. In 1981, for example, Japan had a productivity growth rate of 3.7 percent, France 2.3 percent, and West Germany 1.3 percent — compared to under 1.0 percent for the United States.

As other economies have become more productive more rapidly than the United States, they have been able to turn out higher quality products more cheaply. This enables them to gain an increasing share of markets once dominated by U.S. products. The results are declining sales and profits for U.S. companies, a reduction in output, less need for workers — and increased layoffs.

While some specialists dispute the precision of our method of measuring productivity, we can see its effect. There are increasing numbers of Toyotas, Datsuns and Hondas on American roads. And 300,000 U.S. auto workers are out of jobs.

Between 1960 and 1980, the share of domestic car sales among U.S. auto manufacturers dropped from 96 percent to 73 percent of the market. And there were similar trends in the steel industry, in consumer electronics, in the manufacture of footwear and textile machinery. In short, foreign manufacturers who have learned to produce better products more cheaply than Americans are taking over many markets that American companies used to dominate.

In the 1970s the United States lost almost a quarter of its share of the world market, which means some $125 billion in lost production and a loss of at least 2 million industrial jobs.

STRATEGIES FOR PRODUCTIVITY

This, then, is the issue that Americans face: The basic rate of unemployment has been increasing; productivity growth has been declining. If productivity continues to decline even more job losses can be expected in the future. Yet efforts to reverse the trend in productivity are almost certain to entail substantial sacrifices and lead to increased unemployment over the near term. Can American productivity and competitiveness be restored for the long term without generating intolerable short-term costs?

Various policy alternatives have been proposed to

THE NEW TECHNOLOGIES: THE HIGH PRICE OF A PROMISING SOLUTION

Historically, technological advancements have provided the single largest impetus for increases in productivity. A 1977 study by the National Science Foundation estimated that 45 percent of the nation's economic growth between 1929 and 1969 could be attributed to technological innovations. The study also found that when high-technology industries were compared to low-technology industries, the former had twice the productivity growth rate, triple the real growth rate, one-sixth the price increases and nine times more growth in employment.

With this record, it's not hard to understand why the solution to our productivity problem has come increasingly to be associated with the need to make greater use of the latest technological innovations in the workplace. The new, computer-based technologies comprise a wide range of tools and processes, including industrial robots, word processors, and electronic storage retrieval systems. The attraction of these technologies lies in their ability to enhance productivity by letting machines do the work of people — faster, better and at lower cost.

Consider these examples:

★ While it once took 75 hours to assemble an electromechanical telex machine, the new electronic machines can be assembled in 11 hours.

★ An insurance company in England has installed an electronic policy-issuing system that cuts the time required to issue a policy from three weeks to three minutes.

★ Electronic word processors, when used to prepare such customized documents as legal briefs and letters, can double typing efficiency. For standard letters, which are stored in the machine's memory, efficiency can be boosted by an estimated 400 percent.

★ A semi-automated textile mill covers 8500 square meters and employs 95 people; it replaced three mills covering 45,000 square meters and employing 435 people.

★ According to one study, after the General Motors plant in Lordstown, Ohio, introduced robot welding machines, it boosted production by 20 percent but reduced the work force by 10 percent.

Photo by Ann Chwatsky.

★ In West Germany, productivity in the printing industry rose by 43.5 percent between 1970 and 1977 due to the installation of electronic printing.

Such results have led various observers to conclude that the United States has no choice but to move swiftly to adopt the new technologies if it wants to revive its sagging industrial core and revitalize the economy. But rising unemployment is likely to be one of the chief costs of doing so. "If speculation about the electronics-dominated society of tomorrow turns out to be anywhere near the mark," says Arthur L. Robinson of *Science* magazine, "then the impact of advances in electronics on employment could dwarf earlier concerns about automation...."

The efforts which are most likely to heighten productivity are almost certain to lead to increased unemployment — at least over the near term.

"As of September 1st, I'm sorry to say, you will all be replaced by a tiny chip of silicon."

Drawing by Stevenson; © 1977 The New Yorker Magazine, Inc.

deal with jobs and productivity. Essentially, there are four different strategies:

EMPHASIZE THE "FREE-MARKET"

This strategy emphasizes a reduction of government constraints, and greater reliance on the marketplace to renew American economic vitality. Advocates of this approach attribute the country's lagging productivity and other economic problems primarily to too much government interference. What is needed, in their view, is to cut back on such interference: to reduce taxes in order to stimulate savings and provide the capital needed to invest in productivity-enhancing technologies; to curtail burdensome government regulation of business; to reduce the growth in government spending for such domestic programs as Social Security, health and welfare; to avoid government "bailouts" of companies or industries that aren't sufficiently competitive to survive on their own.

In remarks delivered May 20, 1982, at Howard University, President Reagan stressed that over a decade of government-inspired programs of economic redistribution had produced an "ever-shrinking pie" of economic abundance. The market-oriented economic program, he said, would bring a bigger pie and therefore larger slices for all citizens.

DEVELOP A NATIONAL INDUSTRIAL POLICY

Critics of this position argue that relying solely on the workings of the market simply will not be good enough. They acknowledge that "free markets" are desirable, they're just not practical. They point out that today's economy is no "free-market" economy, and neither is tomorrow's likely to be. We live in a mixed economy in which prices and capital are subject to government influence.

And they propose a long-term industrial policy for the economy as a whole. This position calls for considerable planning. While few who take this position agree about just exactly what it would mean, its central features include: stimulating investment in those industries that are likely to

be the most competitive internationally in the decades ahead; discouraging investment in traditional industries that are not expected to be competitive; maintaining and improving the ports, highways, sewers, and other facilities; ensuring balanced regional economic growth; and developing the manpower skills that will be required by high-technology industries.

PROTECT TROUBLED AMERICAN INDUSTRIES

The third strategy is to protect American industries whose survival is threatened by foreign competition. Such protection can take a wide variety of forms, from government-guaranteed loans, subsidies and purchases, to government-imposed restrictions on foreign products. The auto industry, for example, has for some time strongly advocated government action to reduce the number of Japanese and European cars imported into this country. The steel industry has taken the same position with regard to imported steel. Other industries whose markets are threatened by foreign competition favor similar measures.

Greater protection is justified, some argue, because foreign producers have "dumped" their products here at low prices to gain a foothold in the American market. Many nations maintain barriers to limit the sale of American products in their own markets. The protectionist argument is that we should do the same, particularly when we need to buy time to allow American industries to retool and regain a competitive position in the international economy.

REDEFINE THE BASIC AMERICAN WORK CONTRACT

A different approach is taken by those who emphasize the need to redefine the traditional American work contract. Historically, worker-management relations in the United States have been adversarial: The company typically pushes as hard as it can for its interests while workers push as hard as *they* can for their interests. Eventually, often after a good deal of strife, a compromise is reached. Proponents of a new work contract argue that while such a system may have been workable in the past, a more cooperative arrangement is required today if we are to regain our economic competitiveness. To support their case, these advocates point to cooperative arrangements that exist between management and workers in Japan and Western Europe, arrangements that have enhanced their productivity and contributed to their economic vitality. The key to a new work contract would be granting more job security by management, in exchange for worker concessions on measures designed to reduce costs and enhance productivity (such as smaller wage increases, fewer benefits, and acquiescence in the introduction of productivity-enhancing technologies).

These four strategies are not mutually exclusive. Few advocates of the "free-market" approach believe that government involvement in the economy should be entirely eliminated. Those who advocate a national industrial policy continue to see a central role for the marketplace and oppose rigid national economic planning. Supporters of greater protection for faltering industries also agree about the importance of modernizing production facilities.

Each of these strategies, however, represents a choice, an alternative way of resolving our economic dilemma. Each also involves substantial costs. What's at issue in the debate over our economic future is not so much a choice of any one of these four strategies as it is a consideration of fundamental questions like what we are willing to give up to solve our economic difficulties. Let's examine each of these four strategies and the alternatives they offer. First, we will examine our options regarding troubled industries. Then we will turn our attention to the individual workers who are directly affected by our current economic troubles.

What is at issue in the debate over our economic future is a fundamental question: What are we willing to give up to solve our economic difficulties?

2

WHAT SHOULD WE DO ABOUT TROUBLED INDUSTRIES?

On Thursday morning, September 29, 1977, John Riccardo sat on the passenger side of the front seat, reading sales and production figures from the previous day, while chauffeur Frank Romyka steered the dark blue, four-door Chrysler New Yorker....The two men had attended mass at Holy Name Church in Birmingham. It was, John Riccardo used to say, the only time of quiet he had all day: a fifteen-minute pause in the journey between his colonial home in Bloomfield Hills and Chrysler headquarters in Highland Park.

As chairman of the board of Chrysler Corporation, Riccardo headed the nation's third largest automobile company and tenth largest industrial company. He guided the affairs of the fourteenth largest industrial corporation in the world. In the realm of big business, few were bigger. On six continents, in thirteen different countries, a quarter of a million people filed into offices and factories decked with Chrysler's blue-and-white insignia. Chrysler was a parable of American industry. It had endured the economic slumps that viciously disposed of weaker companies and had grown to spread the lessons of American ingenuity, productivity and salesmanship around the world.

These are among the opening paragraphs of a book called *Going for Broke: The Chrysler Story*. Just two years later, Chrysler was on the edge of bankruptcy. By the middle of January 1980, had the government not acted, the company would have been flat broke, unable to pay its bills or borrow any more money. It took over a billion dollars in loan guarantees by the Federal government, and sacrifices valued at an equal amount by banks, workers and the company itself, to keep Chrysler alive.

"Where should we focus our attention — on the short-term health of individual industries or the long-term health of the economy?"

Chrysler provides an extreme illustration of the situation of America's declining industries. Chrysler also brought to a head the debate over what the government should do or not do about endangered companies and industries. The eventual bailout demonstrated just how difficult it is for our political system to take actions that impose short-term sacrifices. The fundamental question extends far beyond Chrysler's fate. It is the question of what decisions we should make to ensure the long-term health of the economy.

SHAKY GIANTS

For a number of years, industries that have been the backbone of the American economy have found themselves in increasingly difficult circumstances. In 1979, U.S. Steel lost almost $500 million. The following year, each of the three major auto manufacturers lost more than a billion dollars. Major manufacturers in other industries didn't fare much better. International Harvester lost almost

United Press International Photo.

Laid-off Chrysler workers stage a mock funeral to mourn the loss of their jobs during Chrysler's sharp cutbacks.

$500 million. Firestone lost $100 million.

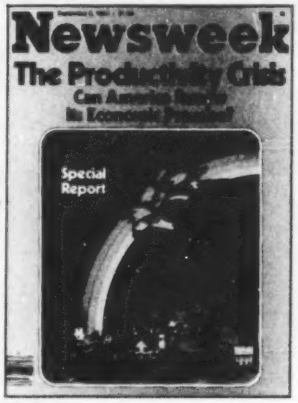
The situation has not improved since then. In the first quarter of 1982, one of every seven of the largest American companies showed a loss. Each of the Big Three auto makers and five of the steel industry's eight biggest producers reported losses. Delta Air Lines had its first quarterly loss in 25 years; Eastern Airlines showed its worst quarterly deficit in 54 years; and Braniff was soon to go under.

These and other dismal bottom-line figures meant heavy job losses. More than 300,000 auto workers were out of work. In the steel industry, employment dropped in February 1982 to 242,000, the lowest figure for the industry since the early 1930s.

Part of these losses in profits and jobs was due to the recession, and the situation could be expected to improve when it was over. More critical was the long-term decline in some of the country's pillar industries, a decline that was hardly limited to automobiles and steel.

It is no accident that, around the time of the Chrysler debate, more and more began to be heard about the need for a long-term strategy to "re-industrialize" America. In the words of sociologist Amitai Etzioni, "For the last decade, American society has been underdeveloping, which has put industrialization in reverse gear.... If America is to continue to be able to sustain a high standard of living, and set aside the resources needed for national security, a decade or so of shoring up its productive capacity, or reindustrializing, is required." The theme was echoed in major stories in magazines, newspapers, and television. It became the subject of hearings in Congress, and speeches and articles by public officials.

There was general agreement about the problem, the troubled state of the industrial core of the American



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economy. But what was to be done about it?

Let us consider the responses of our four strategies for restoring economic vitality.

LET THE MARKET DECIDE: THE FREE-MARKET STRATEGY

The "free-market" approach has come to be known as "supply-side economics." What the supply siders advocate is to reduce taxes, curtail regulation and antitrust enforcement, limit the growth of public expenditures for social programs, and in general restrict government interference with the workings of the economy. The underlying assumption is that many of America's economic problems stem from too much government interference in the market.

Those who place their faith in the "free market" oppose government "bailouts" for troubled industries like Chrysler. James Buckley, then a Senator from New York, summed up this position over a decade ago during the debate over whether the government should provide loan guarantees to the faltering Lockheed Aircraft Corporation. "If the inefficient or mismanaged firm is insulated from the free-market pressures that other businesses must face," said Buckley, "the result will be that scarce economic and human resources will be squandered on enterprises whose activities do not meet the standards imposed by the market place."

"If the inefficient or mismanaged firm is insulated from the free-market pressures that other businesses must face," said Sen. Buckley, "the result will be that scarce resources will be squandered on enterprises that do not meet standards imposed by the marketplace."

That was President Reagan's concern when, in a May 25, 1982 letter to Senate Majority Leader Howard Baker, he stated that he was "unequivocally opposed" to any bill that would provide government assistance to housing, banks, agriculture, steel, small business, automobiles, and other troubled economic sectors. "A bailout for one sector," he wrote, "is likely to lead to bailouts for others. Taken together, these bailouts could exceed our budget by tens of billions of dollars. This would compound the deficit problem, keep interest rates excessively high, and weaken the economic recovery."

Yet, as illustrated by the Chrysler case, the costs of a hands-off, free-market approach could also be high. Allowing Chrysler to go under would have meant, according to studies done at the time, a measurable decline in the Gross National Product and a rise in the national unemployment rate of about one percent. Moreover, it would have meant some $1.5 billion in welfare payments and an annual tax loss of $500 million.

Much of the impact of a Chrysler bankruptcy would have been felt in Detroit, where more than half of its production workers were employed. It is estimated that Detroit's already high unemployment rate would have risen by an additional ten percent.

HOW COMMUNITIES FEEL THE IMPACT OF FACTORY SHUTDOWNS

In February 1982, the General Electric Company shut down its clothes-iron manufacturing plant in Ontario, Calif. Purchased by GE fifty years earlier, the plant turned out almost five million metal irons a year and had caused Ontario to be dubbed the "Iron Capital of the World." The plant employed over 800 hourly workers, with a payroll of $14 million a year.

On the CBS television program "Sixty Minutes," a spokesman for GE said that the company had decided to close the plant because "consumers are showing a decided preference for the light-weight or so-called plastic iron." Whereas five years ago 75 percent of the irons sold in the world were metal, today more than 60 percent are plastic, according to GE.

Employees of the plant and their supporters, such as Rev. Richard Gillette, saw the situation differently. "In pursuit of greater profit," says Gillette, "GE has closed a plant which is making a lesser profit. And the tradeoff in human devastation and community devastation is, in my judgment, more detrimental than it might be for GE to lose a few bucks."

Mary McDaniel, president of local 1012 of the United Electrical, Radio and Machine Workers of America, and a longtime employee of the plant, said: "It was a job that you could have pride in; we had a product that we had pride in. People when they were finally able to get on in that plant, felt like they were secure and they could go and build a secure life for themselves. It's a hard thing, it's an emotional thing, because we feel like the plant doesn't belong to General Electric, it belongs to us, the people of the community, you know."

The mayor of Ontario told CBS that the ripple effects of the plant's closing would result in the loss of 2,000 jobs in the community.

When Lykes Corp. closed a steel mill in Youngstown, Ohio, in 1977, a study by Policy Management Associates found that, in the first 30 months following the shutdown, the communities

United Press International Photo.

around Youngstown would lose $8 million in taxes, the county would lose another $1 million and the state would lose up to $8 million. Property taxes in the community where the plant was actually located had to be increased by 25 percent in one year — and even then the school budget faced a substantial deficit. Late in 1979, when the second round of Youngstown closings was announced, 25 percent of the 4,500 steelworkers who had already been thrown out of work were still unemployed.

Its impact would then have rolled across the country, like an enormous tidal wave causing particular destruction in Wilmington, Delaware; in St. Louis; Syracuse; and Kokomo, Indiana, where Chrysler has large production facilities. It would have had a ripple effect in virtually every city and town in the country where there were Chrysler dealerships.

One of the most concerted lobbying efforts ever witnessed in the halls of Congress was organized. Hundreds of independent Chrysler dealers located in Congres-

© Shepard Sherbell/Picture Group.

Signs at the entrance to United Auto Workers headquarters in Detroit.

The premise of the protectionist approach is that government cannot allow large companies, much less entire industries, go under, because the human and economic cost would be too great.

ional districts throughout the country joined with corporate and labor leaders to argue that the cost of allowing Chrysler to go under was just too high.

In the end, they won out. Neither the members of Congress nor the Administration was willing to assume responsibility for a Chrysler bankruptcy. Lee Metcalf, then a Senator from Montana, had anticipated the outcome of the Chrysler debate ten years earlier when the Lockheed question was before Congress. "I would not take upon myself the responsibility of closing out all those jobs," he conceded. What he didn't mention was that, in doing so, he chose to underwrite the costs of a failing industry — at the taxpayer's expense.

PLAN AHEAD: THE INDUSTRIAL POLICY APPROACH

Those who would respond to America's troubled industries with a national industrial policy differ about details. But they would agree that what is needed is a more active government role and the development of a long-term strategy for the economy.

They point out the government is already heavily involved in the economy and always will be. The question is whether this involvement will continue to be the product of short-term pressures — as in the case of Chrysler — or whether its explicit purpose should be long-term economic renewal.

After all, the federal government,through its extensive purchases in areas such as communications equipment and scientific instruments,already exerts great economic influence. It is estimated that federal expenditures benefitting particular industries total more than $300 billion or roughly 15 percent of the GNP. The government wields enormous influence. The only question is whether that influence is used to advance any consistent economic strategy.

The absence of a focused and systematic policy places the United States at a distinct disadvantage, because other nations such as Japan, West Germany, and France have explicit policies and predetermined economic goals. Their aim is to reduce costs for promising industries and to promote industries with the greatest promise.

Yet an industrial policy also has its dangers and costs. For one, it entails greater government involvement in the economy, precisely the kind of involvement that, to many, has been the very source of our economic problem. If government is chronically wasteful and incompetent, as some believe, then enlarging its role hardly seems a very promising way to restore the nation's economic vitality.

Proponents of an industrial policy see the need to channel investment away from economic sectors that are unlikely to be competitive and toward industries which

hold the most promise. As Lester Thurow, a professor of economics and management at Massachusetts Institute of Technology puts it, we "need the national equivalent of a corporate investment committee to redirect investment from our 'sunset' industries to our 'sunrise' industries." But as Thurow is quick to point out, the inevitable accompaniment of investment in new industries is *disinvestment* in old ones. It might well have meant turning a deaf ear to pleas that Chrysler must be saved. The danger in such a policy is obvious. Any industry that lost government funds and assistance because it was regarded as a 'sunset' industry would seek to change government policy. "While it is easy to say that such things should not occur," Thurow writes, "each of us would be demanding the same protection if we were in the affected industries or communities."

PROTECT THE THREATENED

The third strategy for dealing with the decline of the country's core industries — greater protection from failure by the government — is in many ways the most appealing strategy in the short run and it is the path that was followed in the Chrysler case. The basic concern is that government cannot allow large companies or industries employing substantial numbers of people to go under because the human and economic cost would be too great.

Protection takes many different forms: tariffs, marketing agreements, bailouts, and business tax breaks. All of these measures are intended to shore up industries that, without such help, would have difficulty competing and surviving.

In one troubled industry after another — from autos to steel to textiles — calls for greater protection have taken the form of cries for higher tariff and quota barriers that would restrict the sale of foreign-produced products in the United States. It is one issue on which both management (pinched by the loss of sales and profits) and labor (fearful about the loss of jobs) can join in a common plea. "I say we should stop the imports and put our own people back to work," says Art Finch, a thirty-four year-old laid-off auto worker in Kenosha, Wisconsin. A sign in the UAW hall in Anderson, Indiana — where unemployment stood at 22 percent in May, 1982 — reads: "The membership of local 662 welcomes all American-made vehicles. All others may be asked to leave."

The sentiment has been echoed by auto executives who strongly urge the government to restrict the number of Japanese autos that can be imported into this country, at least until the industry has retooled to produce smaller, more fuel-efficient cars. The steel industry has pressed for similar import restrictions. As William DeLancy, chairman of the Republic Steel Corporation puts it, "We *have* to stop the flow of subsidized and dumped imports. The quota approach really seems to be the best available or the least bad answer to a problem that really demands resolution." Bill Bowling, an auto worker for 14 years, made the point with stark simplicity: "The Japanese protect their products; why shouldn't we protect ours?"

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"Gosh, son, we're all together again"

But critics of protectionism had an answer: it imposes too many long-run costs. Protecting troubled industries, in their view, would be the *worst* thing we could do. It would amount to rewarding inefficiency and discouraging productivity, thus lowering the overall level of economic growth. In hearings before a Senate subcommittee on May 6, 1982, Senator Paul E. Tsongas of Massachusetts made the point quite vividly: "Protection is an opiate that delays our coming to grips with the real enemy, which is our inability to compete with other industrial economies." In other words, if what we're really concerned about is sales, profits and jobs, the only real option we have is to gear up to become more competitive in the long run.

BRING WORKERS AND MANAGEMENT TOGETHER: REDEFINING THE CONTRACT

The fourth approach to our economic dilemma — redefining the work contract — is seen by its advocates as the key to industry's ability to enhance productivity and improve its competitiveness.

Historically, workers in the United States have been hired to do a specific job. If the job disappears, more often than not so too does the worker. The American work contract places little obligation on the company to retain an employee. There is perhaps no other country in the world where it is so easy for employers to lay off workers.

At first glance, such an arrangement might appear tailor-made for the swift adoption of productivity-enhancing measures. Unencumbered by the greater commitment to worker participation and job security that characterizes the Japanese, it would appear that American companies could more easily displace workers with new computer-based technologies.

The reality, however, is quite different. Unions often limit management's flexibility. And companies continue to employ a rather authoritarian style of management despite the fact that today's workforce is better educated and more independent. There is, in other words, a mismatch between managers and employees that aggravates the productivity problem.

Japan provides an alternative model. For a substantial portion of the Japanese work force, the work contract is very different from ours. Workers are hired not for a specific job, but for a company. Employment is regarded by both company and worker as a lifetime commitment. Should a job disappear, the company has a responsibility to assure the worker another.

It is unrealistic to think that the Japanese system could be applied in any automatic way here. American culture is fundamentally different; but proponents of a new work contract believe that a far more cooperative and less adversarial system is entirely possible.

By the Summer of 1982, there were various indications that, under the threat of declining sales and profits and the threat of job losses, elements of a new work contract might be taking shape.

- ★ In 1981, the United Food and Commercial Workers persuaded four companies to agree to an 18-month moratorium on plant closings (and resulting job losses) in return for a four-year wage freeze.
- ★ Union workers in the rubber, airline, and steel industries have also agreed to wage "givebacks" in order to avoid layoffs.
- ★ As part of its precedent-breaking agreement with the major auto companies in early 1982, the UAW relinquished certain wage and benefit increases in return for greater job security and a two-year hold on plant closures.
- ★ The Ford Motor Company in turn guaranteed lifetime job security to 80 percent of the nearly 80,000 workers employed in its plants in Livonia, Michigan and Chicago. Layoffs would occur only through attrition.
- ★ In the midst of Chrysler's crisis, Douglas Fraser, president of the UAW, was placed on its Board of Directors, a common occurrence in Europe but virtually unheard of here. *Continued on page 19*

IS A MAVERICK STEELMAKER POINTING THE WAY TO THE FUTURE?

While much of the nation's steel industry seeks greater protection from foreign imports, Wheeling-Pittsburgh Steel Corporation has struck out in a different direction. From a low point in 1977, when its losses reached $25.6 million and loan defaults seemed possible, Wheeling-Pittsburgh fought back by obtaining government-guaranteed loans for a $105 million rail mill built with Japanese and French technology. Wheeling-Pittsburgh then bought $150 million worth of continuous casters from Japan, thereby cutting several expensive steps from the process of transforming molten steel into semifinished products and it also was the first major steel company to ask its workers for wage concessions.

Dennis J. Carney, chairman of Wheeling-Pittsburgh, says: "My experience tells me that neither Democratic nor Republican administrations will sacrifice diplomatic relations to save the U.S. steel industry." Carney recommends that other steelmakers rely instead on "a marked degree of modernization very quickly."

He maintains that "the rest of the steel industry is living in a dream world if it thinks it can fight the trade war with Second World War equipment."

THE INDUSTRIAL POLICIES OF OUR COMPETITORS

Proponents of a systematic national industrial policy point to the planning that underlies the economic success of some of America's major industrial rivals.

Japan uses a strategy to identify and promote industries with the best prospects for developing new technologies and exploiting world market opportunities while shifting workers out of declining industries. The nation defines and works toward these objectives by means of a consensus that is developed through a many-tiered system of consultation that embraces practically the entire society.

Myth vs. reality.
By reputation some foreign workers appear productive beyond comprehension.
In reality, the image is illusory.
Productivity gains of workers are as much a result of the intelligent capital investments of their employers as anything else.
American industries simply have not kept pace.
According to a comprehensive analysis by the New York Stock Exchange, if this country's rate of investment had equalled Japan's during 1973-1979, the economic growth rate of both countries would have been the same.
In short, a worker is only as good as his tools.
At Ingersoll-Rand our concern is productivity. We provide the products the U.S. needs to refurbish its industries... everything from hand and power tools that speed assembly lines to air compressors that enable 40 percent productivity gains in textile plants through air weaving.
We know when given the right tools, American workers are equal to or better than any others in the world.
Hands down.
INGERSOLL-RAND.

Courtesy of Ingersoll-Rand.

The counterpart to promotion of vanguard industries — and equally crucial to the Japanese growth strategy — is Japan's policy of deliberately shrinking industries that face bleak long-term prospects because of "structural" changes in the world economy, such as the steep rise in energy costs. Japan's aim is to move workers and other resources out of activities in which labor productivity and the return on investment are low and into more productive and profitable enterprises. This approach contrasts sharply with that of the United States, which attempts to keep workers employed in declining industries by means of import curbs to protect makers of steel, textiles, and TV sets, and with European government efforts to prop up steel mills and other ailing industries with subsidies.

West Germany relies primarily on market forces and on decisions by individual companies to channel investments, labor, and management talent toward activities with the highest potential economic returns. To create a climate of confidence among investors, it applies steady, anti-inflationary "macroeconomic" policies. Germany harmonizes conflicting interests in its society by a system of "codetermination," involving labor participation on corporate boards of directors, and at times in recent years by "concerted action" — three-way consultations between government, business, and labor.

A key to Germany's high investment rate is the country's financial structure — a network of close, stable links between industrial companies and banks that encourages companies to invest with an eye to long term growth. In the United States, where corporate financing is heavily dependent on public capital markets, managers are forced to emphasize short-term performance instead.

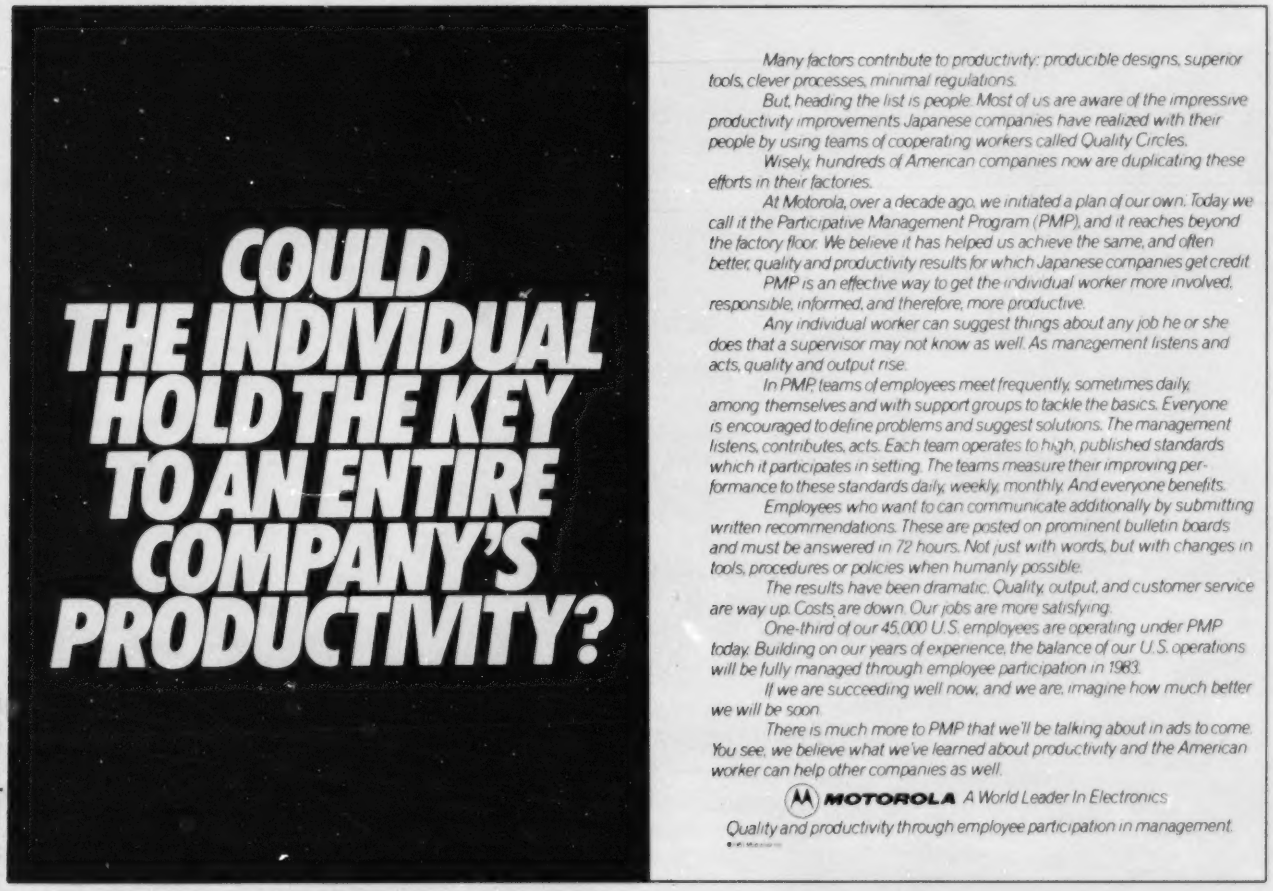
France uses a mix of "indicative" national economic planning to provide business and labor with a broad framework for decision making, and "strategic" planning to funnel resources, as Japan does, into high-technology, fast-growth industries. In indicative planning, the government indicates the thrust of policy and thus provides business executives with a coherent, though not compulsory, framework for relating their investment decisions to government policy. The development of these plans is guided by France's elite government bureaucracy, closely linked with leaders in business and the professions.

CAN WORKER-MANAGEMENT RELATIONS BE IMPROVED?

In 1977 one of the nation's largest industrial corporations opened a new chemical processing plant in Texas. For the plant to operate efficiently, the managers realized that it would be necessary to have great flexibility in the assignment of the work force: That is, all three hundred workers would have to be ready and able to do any job in the plant at any time. This need for flexibility ran up against one of the basic tenets of unionism: the need to uphold rigid craft lines in order to protect workers in one job classification from being replaced by less skilled workers from a lower wage classification. The corporation had little hope of gaining the reforms it sought because the union involved, the United Steel Workers of America, held job/wage classifications sacrosanct.

Company executives were astonished when the union expressed willingness to negotiate. The enlightened union official responsible for the plant explains why they were willing to talk: "Adversarial relationships often deteriorate into economic warfare. We felt there ought to be a better way." The better way that the union had in mind was industrial democracy ("the elimination of the master/servant relationship") and participative management ("the right of workers to participate in managerial decisions and in company profits"). After thus stating their position in words that normally cause managers to see red, the union officials were equally surprised when the company still expressed willingness to negotiate.

In negotiating the details of the contract, the union and the employers moved out of the "smoke-filled room" and into the open where workers could have an input into the various provisions being carved out. The preamble to this contract is especially significant. It states that neither the union nor management has given up its traditional rights and responsibilities, but both have agreed to "exercise these cooperatively." That spirit informs the entire contract, and


COULD THE INDIVIDUAL HOLD THE KEY TO AN ENTIRE COMPANY'S PRODUCTIVITY?
Many factors contribute to productivity: producible designs, superior tools, clever processes, minimal regulations.
But, heading the list is people. Most of us are aware of the impressive productivity improvements Japanese companies have realized with their people by using teams of cooperating workers called Quality Circles.
Wisely, hundreds of American companies now are duplicating these efforts in their factories.
At Motorola, over a decade ago, we initiated a plan of our own. Today we call it the Participative Management Program (PMP), and it reaches beyond the factory floor. We believe it has helped us achieve the same, and often better, quality and productivity results for which Japanese companies get credit.
PMP is an effective way to get the individual worker more involved, responsible, informed, and therefore, more productive.
Any individual worker can suggest things about any job he or she does that a supervisor may not know as well. As management listens and acts, quality and output rise.
In PMP, teams of employees meet frequently, sometimes daily, among themselves and with support groups to tackle the basics. Everyone is encouraged to define problems and suggest solutions. The management listens, contributes, acts. Each team operates to high, published standards which it participates in setting. The teams measure their improving performance to these standards daily, weekly, monthly. And everyone benefits.
Employees who want to can communicate additionally by submitting written recommendations. These are posted on prominent bulletin boards and must be answered in 72 hours. Not just with words, but with changes in tools, procedures or policies when humanly possible.
The results have been dramatic. Quality, output, and customer service are way up. Costs are down. Our jobs are more satisfying.
One-third of our 45,000 U.S. employees are operating under PMP today. Building on our years of experience, the balance of our U.S. operations will be fully managed through employee participation in 1983.
If we are succeeding well now, and we are, imagine how much better we will be soon.
There is much more to PMP that we'll be talking about in ads to come. You see, we believe what we've learned about productivity and the American worker can help other companies as well.
MOTOROLA A World Leader In Electronics
Quality and productivity through employee participation in management.

Used with permission.

makes possible the following provisions, which have scant precedent in the adversarial history of American labor relations:

- ★ There is a no layoff agreement.
- ★ There are no time clocks.
- ★ There are no company rules.
- ★ Foremen have no authority to assign or to discipline workers.
- ★ The only discipline available to the company is to send a worker home.

Grievance and arbitration procedures were seen as unnecessary because the plant is governed democratically by a series of joint worker-manager committees, starting at the shop-floor level with problem-solving committees made up of every member of every work crew, and spreading to elected plant-wide committees, such as the Common Interest Committee, which has the power to take on any issue it chooses to consider.

Most important in terms of productivity and worker commitment, each self-managing crew has full responsibility for accomplishing its own work. It is up to the crew to decide who will do what tasks, and how those tasks will be done.

Union and management have agreed not to disclose the name or location of this plant in order to keep pesky media types from turning it into a fishbowl. And while the company is unwilling to disclose how profitable the plant is, it admits that productivity has far outpaced the predictions engineers had made based on the capabilities of the technology employed. (The company, nevertheless,has a policy of full disclosure to the workers and the union of all managerial and financial information.)

For their part, workers apparently like what is happening. In two and a half years of operation the absenteeism rate in the plant has been less than 1 percent and there has been no measurable turnover. Given that the average age of the workers in this plant is in the low twenties, this is a remarkable record of responsibility and stability. The company and the union seem to think so: They are now making plans to adopt similar practices in other plants.

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Continued from page 16

However, the transition to a more cooperative work arrangement is likely to be neither quick nor easy. Management would have to give up much of its traditional freedom to act without consulting workers before closing plants, laying off employees and making other operating decisions. Workers might have to forego regular wage increases, revise work rules and agree to the introduction of labor-displacing technologies. None of this would be easy, since there has been such animosity between labor and management. Workers have long been suspicious of and bitter toward management. As one man, a 27-year veteran on the factory floor puts it, "If I take a 10 percent pay cut, I'm cutting my damn throat. If the company is that bad off, I say go to hell, because if I'm going to starve, you might as well starve with me." Considering how deep-seated differences between management and labor are, it could take years to get over long-standing animosities. But the result could be improved productivity and a partial solution, at least, to our economic dilemma.

Any of these four strategies could have been applied to the Chrysler situation. A strict, free-market approach would simply have let Chrysler go under if it wasn't competitive enough to survive. An industrial policy might or might not have aided Chrysler, but any support would have been a product of a long-term strategy of economic development. A protectionist strategy would have preserved jobs, at least in the short run. A different kind of work contract might have kept Chrysler from ever having gotten into such a situation.

But, as it turned out, the most persuasive arguments were the ones made on behalf of the individuals — hundreds of thousands of them — who would have had to bear the burden of finding new jobs, perhaps in other towns or different industries. It was the protectionist strategy that prevailed. But the larger issues remains: By choosing to minimize short-term distress, had we exacerbated the basic problem?

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WHAT SHOULD WE DO ABOUT DISPLACED WORKERS?

In the early 1960s, Frank Capek worked as a mechanical engineer for an aerospace company that made equipment for the space program that was to take men to the moon. "I'll never forget it," Capek recalled. "I had all kinds of work, sometimes sixty hours a week. And I made tremendously good money." But Capek was lured away by the promise of even better wages. His new employer, a large defense contractor, offered a big raise and a position as a senior engineer.

Unfortunately, after only a year on the job that company lost a major contract and Capek was laid off. "When a program is down," he said, "there is no work. Who came last, he goes out first. And I was one of them." Five years, two jobs, and an additional layoff later, the company asked Capek to come back. "I accepted the recall because the benefit package and the insurance package and everything else is better than any other place." This time, Capek's job lasted two years before business slowed down once again. And again he became one of the victims. "Now I am fifty-four years old," says Capek, "I have a family. I have a house. I have less and less chance to go anywhere. I said, 'Give me a broom or give me some other assignment.' I'm going to take it, because I have no other choice. They give you a week or two severance payment, they pay vacation, and good-bye."

> **"As unemployment goes up, the problem of displaced workers becomes more and more important, and so does the question of what public policy should be with regard to the unemployed."**

The issue of job security — of who becomes unemployed and what happens to them — assumes heightened importance as the rate of unemployment in the United States moves upward. It is likely to assume even greater importance with the introduction of labor-saving technologies that are now widely regarded as the key to enhancing productivity.

While some experts take comfort in the fact that the technologies of the past created more jobs than they destroyed, other observers are skeptical. They point out that there is no precedent for what's happening today: the introduction of low-cost, highly versatile computers that promise both to enhance productivity and to displace labor.

Just as we considered the issue of what to do about declining industries in terms of our four basic strategies, let us now examine the question of what to do about the unemployed in terms of those same options.

THEY'RE ON THEIR OWN: THE FREE-MARKET STRATEGY

Prior to the 1930s, the unemployed worker in the United States was dealt with largely on a "free-market" basis. If the workers could find work, fine. If not, they were on their own. With the coming of the Great Depression and the administration of President Franklin Roosevelt, it was decided that that approach no longer made sense, that the

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costs — both economic and social — were simply too high.

Without jobs, workers had no income, and that meant no money to spend, which led to declining sales and profits and, ultimately, to even greater joblessness. Twenty-five percent unemployment was the highest that the country had ever experienced. It led, among other things, to violent clashes between labor and management and the largest following ever for the American Communist Party. The country's condition was the inspiration for John Steinbeck's famous and aptly titled *Grapes of Wrath*.

In 1935, the nation set out on a new course by assuring a minimum income for workers at times when jobs were not available. In the years since, unemployment compensation has kept many a family together. Michael Biernat, an unemployed carpenter in Joliet, Illinois spoke for many when in 1981 he said: "If it weren't for unemployment compensation, I would have missed a few mortgage payments."

Additional government programs for the jobless had been added over the years. Trade adjustment assistance allowed workers who lost their jobs because of foreign competition to draw unemployment compensation for longer periods of time than other laid-off workers. Food stamps, Medicaid, and Aid to Families With Dependent Children have also helped to cushion the impact of unemployment for millions.

Largely because of that government-provided "safety net," unemployment is not so devastating today as it used to be. That was President Reagan's point in a May, 1982 address. He said that unemployment wasn't the "total destitution" it had been during the depression because of unemployment compensation and the income of working spouses.

> We have a built-in system, first of all with unemployment insurance and our new welfare programs and so forth, but also the dual employment in families.... According to the Bureau of Labor Statistics, it is estimated that only about 30 percent of the families where there is unemployment are without some member of the family employed ... 70 percent of the families have a member of the family employed.

What the administration proposed was the most serious attempt since 1935 to move back in the direction of a free-market approach to unemployment. Extended benefits have been severely curtailed, making it much harder to receive benefits for more than 26 weeks. Other transfer payments, sometimes called "automatic stabilizers" because they prevent a recession from spiraling downward into a depression, have also been cut.

However, the free-market approach continues to

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The feeling of injured pride that afflicts many unemployed workers is expressed on the face of this jobless Detroiter from the 1930s, as well as on the sign he carries.

"We consistently preach that work is the only 'ethical' way to receive income. We cast aspersions on the 'welfare' society. Therefore we have a moral responsibility to guarantee full employment. Not to do so is like locking the church doors and then saying that people are not virtuous if they do not go to church."
Lester Thurow, *The Zero-Sum Society*

NOT WORKING IN LOUISVILLE

Louisville, the largest city in Kentucky, and its surrounding area have an unemployment rate of 11.8 percent, one of the highest in the nation for a

United Press International Photo.

community its size. The metropolitan area, including parts of Southern Indiana, has a total population of 906,152. There are no prospects for a reversal in the jobless trend that began six months ago, officials say, noting that nearly all the news is bad from the area's biggest employers, the General Electric Company, International Harvester and the Ford Motor Company.

FACTORIES HAVE CUT BACK SHARPLY

G.E. has 15,000 people on its payroll, as against 22,000 at its peak in 1973. International Harvester has 2,200 workers against 6,500 in 1974. Ford employs 5,300, down from a mid-1970s peak of about 7,000. At each plant, hundreds of workers are on indefinite layoffs.

The jobs that become available, such as those generated by an ambitious face-lift of downtown Louisville, are barely enough to dent the ranks of 50,000 unemployed. That was made clear when the owners of an impressively restored Seelbach Hotel took applications for 300 jobs created by the hotel's reopening. At least 10,000 people applied.

In suburban blue-collar neighborhoods, such as Pleasure Ridge Park in the Southwest sector of the county, joblessness is new to many middle and lower-middle income citizens. In the neat rows of two and three bedroom brick homes are people who have suddenly become as poor as their inner-city neighbors and are at least as frightened.

"During the good times we weren't hurting for nothing," said 34-year-old James East, who worked at International Harvester for 11 years before being laid off in October 1980. He has found no full-time work. He grossed about $26,000 in 1980, but last year made only $6,000. "Some bills are three months behind," he said. "It seems like the world is closing in on you."

SOME FORMS OF AID AVAILABLE

Like others among the new poor in suburbia, the Easts have survived on unemployment benefits and food stamps. They have two children, Jason, 8 and Travis, 2. Mrs. East has taken a job selling Tupperware, from which she makes about $100 in a good week.

But the family has been unable to break even, Mr. East said. He has searched for work but has found nothing steady, except positions paying the minimum wage. "I cannot run a house on the minimum wage," he said.

Mrs. East, 28, said the couple had ruled out moving elsewhere to look for work. "You hear horror stories from all over," she said, referring to calls from friends and relatives in other parts of the country. "You might as well stay here and hope that things will change." Things may become tougher. The Crisis Information Center, a largely volunteer referral agency that normally receives about 84,000 calls a year, said there has been a 353 percent increase since last July in appeals from people laid off. There have also been increases of 80 percent in calls from people with drinking problems, of 209 percent in calls from people who want children housed elsewhere temporarily because of home tensions, and of 34 percent in suicide calls.

"We've never had so many calls before from men who are going to kill themselves because they don't have a job," said Donna Strauss, the center manager.

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impose substantial costs. Each time the unemployment rate jumps one percentage point, it costs the Federal government $25 billion in lost income-tax receipts and increased welfare and unemployment compensation payments.

The free-market approach also involves substantial human costs as workers are displaced from one region of the country to another. The troubled industrial giants of America are primarily concentrated in the Northeast and Midwest manufacturing centers of the country. As profits decline, these areas experience a disproportionate share of rising unemployment and welfare demands, together with a loss of tax revenues. At the same time, many of the more profitable electronics-based industries have set up shop in the area commonly known as the Sun Belt, where they benefit from lower rates of taxation and the relative absence of organized labor. This imbalance in the availability of jobs has set off a substantial shift in the migration of workers from one region to another.

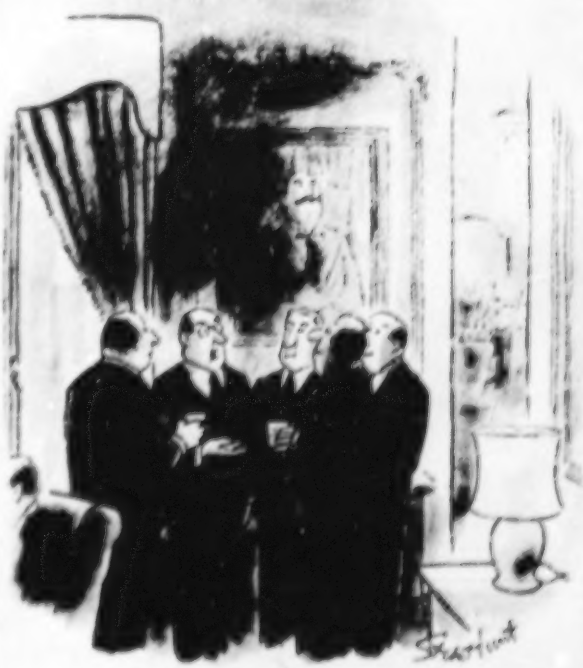
Critics of this internal migration — which has led to significant population losses for some of the older industrial cities such as Chicago, Cleveland and St. Louis, and significant gains for Sun Belt cities such as Houston, Phoenix, and San Diego — consider this to be an unnecessarily high cost to pay. They emphasize the problems of troubled older cities, where there remains a pool of older workers with fewer job skills and lower incomes.

But, from a free market perspective, this is what *must* happen. People continue to move, as they have done throughout our history, to where the jobs are.

THEY NEED HELP: THE INDUSTRIAL POLICY APPROACH

To the advocates of a national industrial policy, the costs of the "free-market" approach are neither necessary nor wise. Nowhere was this better illustrated than in the bitter reaction to one recommendation made by the President's Commission for a National Agenda for the Eighties in January 1981. Recommending a "new perspective on aiding distressed people in urban America," the Commission's main concern was to propose policies that would lead once again to a "vibrant national economy." Its report noted that if national urban policy is primarily concerned with the health of specific cities or regions, it will only create obstacles to that larger economic goal. Accordingly, it recommended that while efforts should be made to assist individuals and families as they relocate to where the jobs are, nothing should and indeed little *could* be done by the government to slow down or reverse that trend.

That recommendation was greeted by a chorus of criticism. "We cannot abandon our older urban areas,"

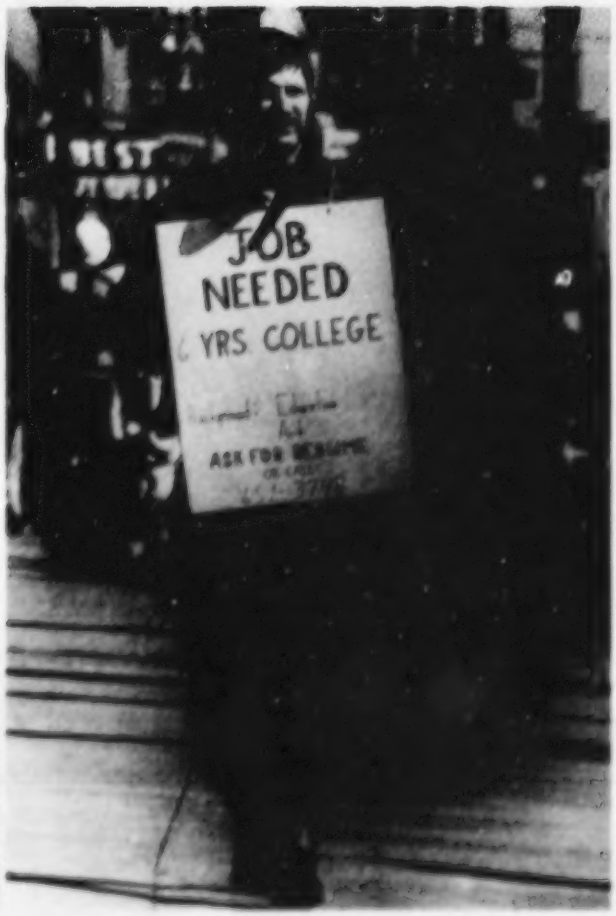


"Now, I'm a reasonable fellow, but it seems to me that in case after case and time after time in these labor disputes the fairer, more enlightened position has always been held by management."

Drawing by Stan Hunt; © 1982 The New Yorker Magazine, Inc.

President Carter said on accepting the Commission's report four days before leaving office. Congressman Robert Edgar of Pennsylvania, then chairman of the Northeast-Midwest Congressional Coalition, said the report "is wholly unrealistic and totally ignores the practical steps that could be taken now to save declining cities." Investment banker Felix Rohatyn spoke directly about the human costs implied in the Commission's recommendation:

> Is it really a valid use of resources to have to build anew in the Sun Belt the existing schoolhouses, firehouses, transit systems, etc., of the North for the benefit of the new immigrants in the South, instead of maintaining and improving what we already have in place here? Is it rational to think that northern cities teeming with unemployed and unemployable will not be permanent wards of the federal government at vast financial and social costs? Is it rational, in the name of the mythical "free market," to let our basic industries go down one after the other in favor of an equally mythical "service society" in which everyone will serve everyone else and no one will be making anything?



United Press International Photo

United Press International Photo

Over the past decade an increasing number of foreign cars on American roads is one indicator of a decline in U.S. competitiveness. These Toyotas, just unloaded from a boat in 1971, were among the first foreign cars to be affected by President Nixon's surcharge on foreign imports, a measure taken to protect American manufacturing.

Advocates of an industrial policy emphasize the need for a substantial effort on the part of government and business to retrain workers for new jobs. They point out that while 10 million Americans are without work many jobs are still going begging. The demand for skilled machinists, engineers and computer programmers continues to grow.

Retraining is important, and not only as a way of dealing with the unemployed. It is also critical to the nation's ability to move toward a high-technology economy which promises greater productivity. Because appropriate training is so important, advocates of industrial policy stress the need to strengthen the country's basic educational system. The point was made clearly in a report from the National Assessment of Educational Progress: "The gap between the number of highly skilled workers needed and the number of students prepared for higher-level jobs is widening. Clearly we are not cultivating the raw materials, or future workers, who will be vital both for economic progress and ultimately for economic survival."

But this approach, like the others, is not cost-free. While such initiatives presume substantial private-sector involvement, the industrial policy approach nonetheless entails extensive government involvement and expenditures. This approach also runs against a strong inclination on the part of the American people, repeatedly documented in public opinion surveys, to reduce government spending.

KEEP THEM WORKING

Those who advocate greater protection for troubled American industries and a redefinition of the work contract confront the problem of the displaced worker in a more straightforward manner. The chief concern of both is to keep people in their jobs.

The threat of massive short-term job losses was one of the most compelling forces behind the government's bailout of Chrysler. Similarly, the whole thrust of the campaign for increased protection from foreign imports has revolved around the need to preserve the maximum number of American jobs. Even management talks in these terms. "The problem is not solely a question of balance of trade," said Philip Caldwell, the Ford chairman. "It involves hundreds of thousands of jobs — not only in the automobile industry but in supplier industries as well."

The unanswered question about providing greater protection to American workers is whether it may lead to a greater loss of jobs in the long run. "Protected" industries, some have argued, are not likely to move swiftly to enhance their productivity and competitiveness. And that would lead to higher prices.

Drawing by Lorenz. © 1982 The New Yorker Magazine, Inc.

"I don't like six-percent unemployment, either. But I can live with it."

The proponents of a redefined work contract argue that it holds out the hope of protecting jobs, but in a different way, by heightening productivity. One way that it might do so is by facilitating the introduction of productivity-enhancing technologies. A redefined work contract would differ from current arrangements in several respects. The hope is that if workers had greater job security, they would not resist the introduction of new technologies that might require new skills and work routines.

What is not clear, however, is how smoothly we could make the transition to a different arrangement. It may take some time to redefine what has long been an adversarial relationship.

4

THE ECONOMIC DILEMMAS OF THE 1980s: WHAT ARE THE CHOICES?

"Largely because we have yet to agree on how much we are willing to pay for economic revitalization or who shall bear its burden, we are far from agreeing on a program of action."

In June 1982, as leaders of seven advanced industrial nations met at the Palace of Versailles for their annual economic summit conference, there was a troubling sense that, in words of the *Wall Street Journal*, "The economic ideas and policies employed during the Great Depression and through a long era of post-World War II prosperity seem to have worn out." After several decades of sustained growth and rising standards of living, each of the nations represented at that conference was threatened by painful new realities — and a combination of high inflation, high unemployment and high interest rates. Throughout the rapid growth years of the post-war period, it had been sufficient to "fine tune" the economy, but by the early 1980s there was a growing sense of the need for a major overhaul. The new, more austere circumstances of the 1980s seemed to require a new formula for prosperity.

Nowhere was this more evident than in the United States, which,in the post-war years,was blessed with cheap and plentiful supplies of energy, a cohesive and dedicated workforce, and an industrial base untouched by the ravages of war. The sustained growth of that period firmly established this nation's position as the preeminent force in the world economy. In recent years, however, the U.S. has had the slowest rate of productivity growth among major industrial nations. Many of its basic industries — automobiles, steel, consumer electronics — have been pushed to the brink of collapse.

Previously, when faced with threats to its survival and prosperity, the American people rose to the challenge by forging a workable consensus around which the nation could mobilize for action. The Great Depression, World War II, and the launching of the Soviet Sputnik in 1957 all drew the nation together in a program of common purpose; what needed to be done was broadly understood. As President Reagan left for Versailles, however, no similar consensus had yet emerged about how to respond to the new economic challenge.

Among the American people, as well as its leaders, there is a growing recognition that there is indeed a deep-seated problem. According to a recent survey, 66 percent of Americans believe that the economy is in "a real crisis," compared to 32 percent who said it was "just going through some minor problems." In the same study 62 percent of those interviewed felt that the U.S. economy "is losing ground compared to most other countries."

Another study, conducted by Louis Harris for Sentry Insurance, found that close to 80 percent of the American people regard declining productivity as either a serious problem or as one of the two or three most serious problems facing the nation in the 1980s. Among the nation's leaders, an even higher percentage agree about the importance of

United Press International Photo.

Western leaders gathered in Versailles in June of 1982 to discuss possible strategies to restore economic vitality to Western economies.

doing something to enhance productivity. "We are slipping," warned Commerce Secretary Malcolm Baldridge. "If current trends continue, we may lose our position as the world's premier industrial power by the end of the century. I believe we have to reverse these trends now."

Among the leaders who convened at Versailles to discuss alternative solutions, there were some basic differences about such matters as what the government's role should be. President Mitterrand of France advocated an active government role in the economy, one that would encourage the introduction of productivity-enhancing, labor-displacing technologies. President Reagan replied by calling for a reduction in the role of government and greater reliance than in the recent past on the efficiency of the private sector.

What happened at Versailles reflects what has been happening in this country. The leaders of seven of the most powerful nations in the world took the easy way out. Eager to avoid the kind of confrontation that would have resulted from further discussion of their differences, "agreement" was reached for the purposes of the official news releases. But no minds were changed, no approaches altered. Fundamental differences were literally papered over.

So, too, have we refused to confront our economic dilemma. Increasingly, we agree on the nature of the

What happened at the conclusion of the Versailles meeting reflects what has been happening in this country. Fundamental differences about how to revitalize the economy were papered over.

THE NEW TECHNOLOGIES: WILL WORKERS SWITCH OR FIGHT?

The worker-displacement effects of technology have been a recurring fear ever since the Luddites violently attacked labor-saving machinery in early 19th century England. For the most part, such resistance has been sporadic and short-lived, because technological advances have created far more jobs than they have destroyed.

New, computer-based technologies, however, are bringing the debate back to life. In part, this is a result of rising joblessness in the advanced industrial nations. In part, it is a product of the job-displacing potential and widespread applications of the new technologies.

Jean Jacques Servan-Schreiber, chairman of the French-based World Center for Computer Science and Human Resources, said in Congressional testimony delivered May 19, 1982: "Given the growth of productivity that results from new technologies, experts predict that by the end of the '80s an additional 25 million present jobs will be lost." Added to those already unemployed, "an army of 50 million jobless will appear on the horizon and signal a situation of despair."

Will such a prospect lead to resistance on the part of workers whose jobs are threatened by the new technologies? Writing on robots in the June 1982 issue of *Inc.* magazine, Craig R. Waters, says there is little indication of this so far:

> Workers generally accept the automated assistants after some initial trepidation. One welder, whose partner had been "bumped" by a robot, said of it, "I like it fine; it doesn't talk back to me." And when a robot at a Ford stamping plant in Chicago broke down for an extended period, its human co-workers sent it cards and threw it a get-well party."

On the other hand, Lawrence Groholski, a 32-year-old worker for Harley-Davidson Motor Co., reflected seeds of bitterness that could grow:

> You know what's demoralizing? Did you see the latest commercial that Chrysler had on TV? This guy Lee Iacocca (Chrysler's chairman) is standing and telling the American public how great their cars are, and he's got 15 robot welders working behind him. Not a man working behind him.

One of the keys to overcoming potential worker resistance seems to lie in the manner in which the new technologies are introduced. Says Kenichi Ohmae, a director of McKinsey & Co. and the manager of the consulting firm's Tokyo and Osaka offices:

> Most companies in Japan convert displaced workers to maintenance personnel. (More ambitious companies, like Hitachi, are converting them to computer programmers!) If management pays careful attention to employees' career paths, job enrichment and assurance and offers comprehensive retraining programs, blue-collar workers learn to live with the steel-collars, and eventually a peaceful man-machine interface is established.

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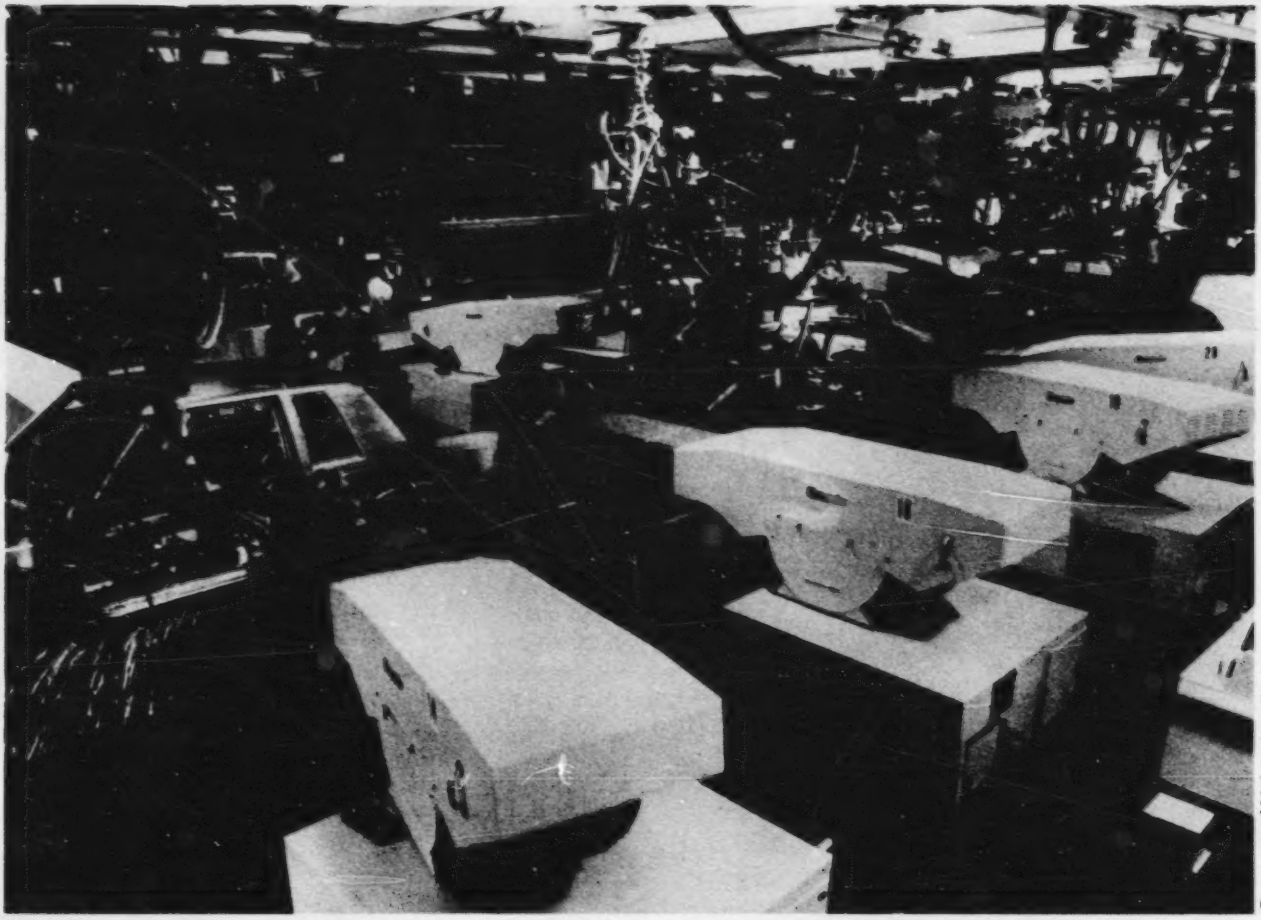
problem, and recognize its seriousness. But we are frustrated at the point of joining together in a common program of action. That has happened largely because we have yet to agree on the price we are willing to pay for economic revitalization, or who shall bear that burden.

So let us review these four different strategies for enhancing the nation's productivity and compare their costs and likely effects.

The free-market approach promises renewed economic prosperity by reducing the government's role and relying on the private sector. Over the long run, advocates of this approach feel that it will produce more growth. But they recognize that there is a price to be paid for it. Bankruptcies and unemployment are likely to rise if businesses that are unable to compete are allowed to go under rather than being bailed out by the government. Fewer resources will be available to cushion the impact of unemployment as the government cuts back on such programs as unemployment compensation and Food Stamps. Some regions where there are heavy concentrations of the declining industries like autos and steel will decline relative to other regions that are benefitting from the growth of high-technology industries. Social and racial tensions may increase as unemployment hits some segments of the population harder than others. While not denying its costs, advocates of the free-market approach believe that the long-term benefits justify the costs.

Advocates of a national industrial policy argue that



Courtesy of Unimation, Inc.

New technologies, like these robots welding cars, have the potential to increase productivity, but at the same time they often displace workers.

the government must take an active role in guiding the economy back to sustained growth. They point out that none of our competitors achieved its growth by following the free-market path. While the U.S. government absorbs slightly over 30 percent of the Gross National Product, in West Germany the government absorbs over 50 percent of GNP. Fifteen other nations collect a larger fraction of their GNP in taxes. Advocates of industrial policy favor policies which target investments toward the "sunrise" industries of the future, and cushion its negative impact through such measures as job retraining and relocation assistance.

The free-market and the national industrial policy approach do, however, have certain characteristics in common: they are both geared to the long term, and both entail near term costs. A national industrial policy would clearly mean a larger government role in the economy and larger government expenditures. It would also mean allowing industries to go under that do not hold promise of being competitive in the economy of the future. Many industrial policy advocates are just as critical as free-marketers of government bailouts of inefficient industries.

A redefined work contract promises more growth; at least it promises less unemployment and a fair chance of introducing new technology. But such a contract could not be put in place overnight. Bitterness and mistrust between management and labor must first be overcome.

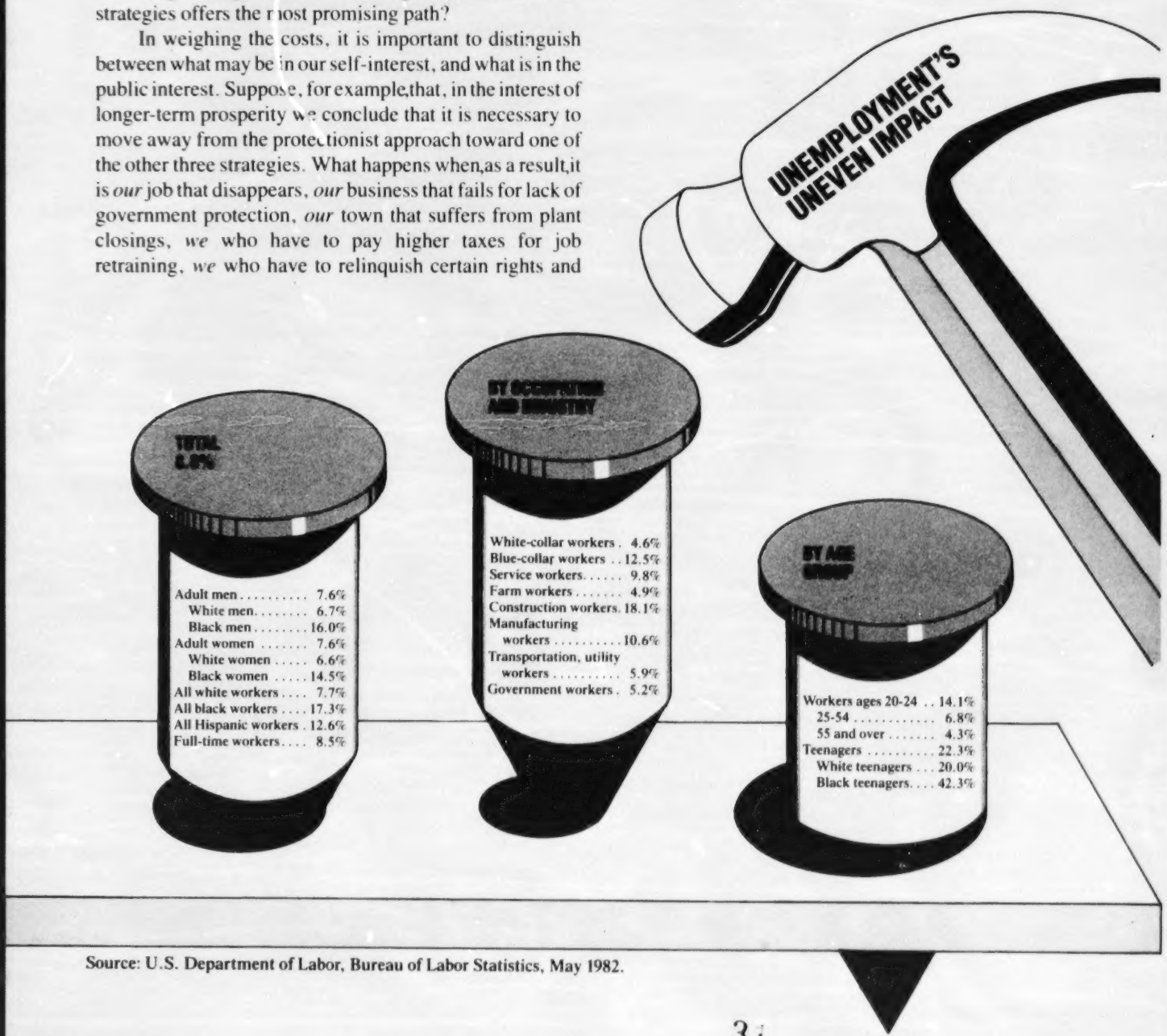
Greater protection for American industries and workers would entail the fewest short-term sacrifices. The government decided to save Lockheed and Chrysler, spent

billions of dollars in price supports for troubled farmers, and imposed import restrictions in response to the pleas of weakened auto and steel industries. But many regard that as a short-term choice that only worsens the long-term problem. When industries are protected from the rigors of the marketplace, prices typically rise, compounding our inflation problem. Government spending and deficits are both forced up. Investment funds are diverted from promising industries to those whose ability to survive is questionable. Inefficient industries have less of an incentive to make themselves more efficient. All of which may contribute to continued economic stagnation.

If we are convinced that efforts must be made to achieve greater growth over the long run, which of these strategies offers the most promising path?

In weighing the costs, it is important to distinguish between what may be in our self-interest, and what is in the public interest. Suppose, for example,that, in the interest of longer-term prosperity we conclude that it is necessary to move away from the protectionist approach toward one of the other three strategies. What happens when,as a result,it is *our* job that disappears, *our* business that fails for lack of government protection, *our* town that suffers from plant closings, *we* who have to pay higher taxes for job retraining, *we* who have to relinquish certain rights and privileges we have gained as workers and as managers?

The criterion of fairness is also crucial in choosing among these strategies. During World War II, for example, there was a broad public agreement that the price to be paid for victory was equitably distributed. That is an essential ingredient for the success of any strategy that would hold out a solution to our current economic dilemma. However, the current situation is that many people are unwilling to make sacrifices that might enhance our growth prospects because they are not convinced that they would personally benefit from increased productivity. A recent study conducted by the Gallup Organization revealed that only 9



Source: U.S. Department of Labor, Bureau of Labor Statistics, May 1982.

WHAT A REDEFINED WORK CONTRACT CAN ACCOMPLISH

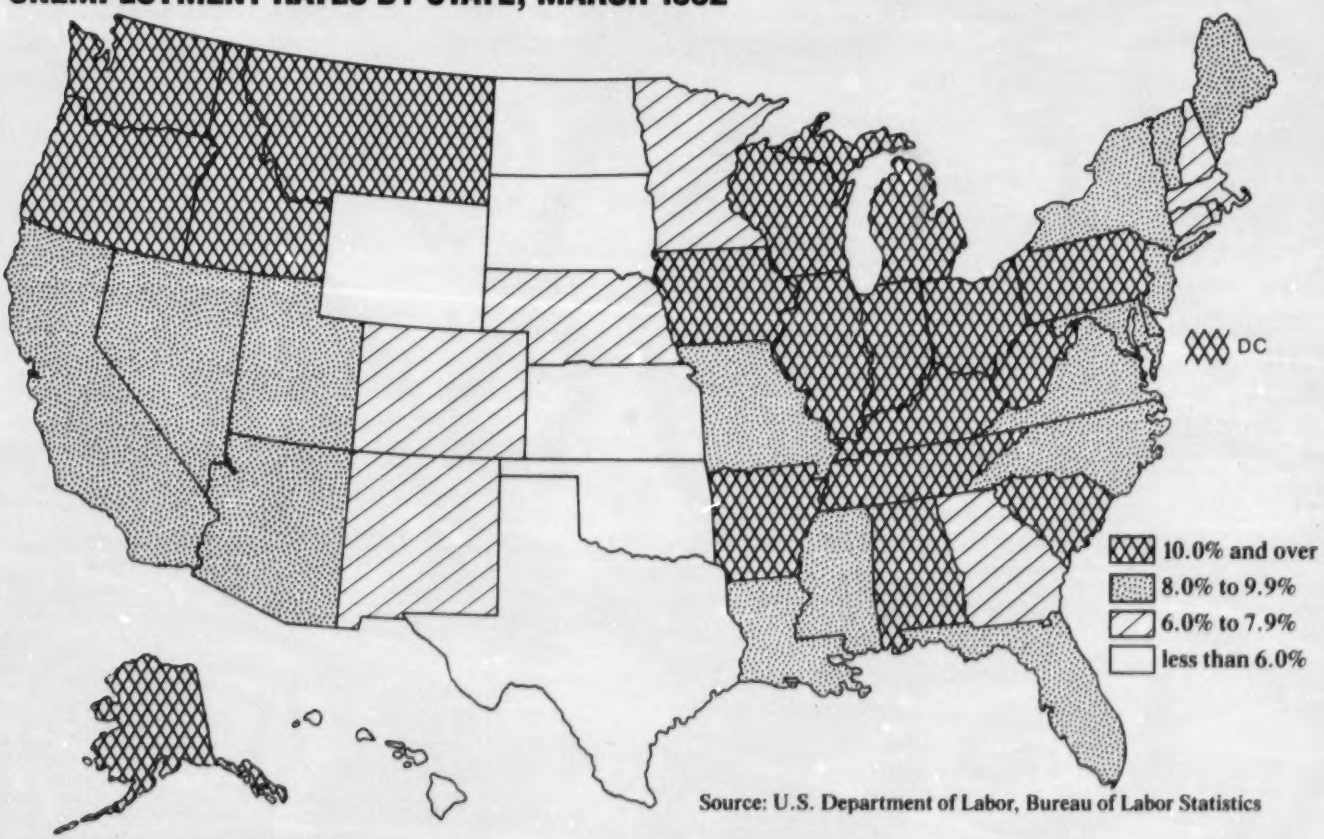
In his book *Making America Work*, James O'Toole describes how Japanese management techniques can make a difference in American factories:

When the Quasar division of Motorola was making televisions in its Chicago plant in the early 1970s, the predominantly minority work force labored in dirty conditions with inappropriate equipment. For example, there was an old belt-type assembly line that ran continuously — even if a worker had left his station and had not installed his part of the set. Consequently the TV set would continue down the line, into retail stores, and finally into homes, sans an essential part. The quality of the TV sets was so poor that there was 60 percent in-plant rejection rate. That is, about two-thirds of the sets produced were sent to "rework" departments. This cost the company about $22 million annually. Reviewing the situation, the company concluded that it was impossible to make televisions economically in the United States. In their wisdom, Motorola's managers decided that there was nothing they could do to compete successfully with "cheap and docile" foreign labor. They therefore sold the division.

When Matsushita purchased the division in 1974, the new Japanese managers cleaned up the work environment and made some relatively simple changes in the equipment. For example, they added a foot pedal at each work station that allowed workers to stop the assembly line when they left their stations or had not completed their assignments. Another major change was to involve workers in managerial processes. Each day all assembly operations halt for a meeting during which workers are asked if they have any problems completing their tasks or have any ideas for improving productivity or quality. Under Japanese management there is only a 1 percent rate of quality rejection, and production of TV sets has increased from one thousand to two thousand a day with the same size work force.

From *Making America Work:* Productivity and Responsibility. Copyright © 1981 by the author. Reprinted by permission of the Continuum Publishing Company.

UNEMPLOYMENT RATES BY STATE, MARCH 1982



Source: U.S. Department of Labor, Bureau of Labor Statistics

SHARED SACRIFICE

While a good deal of attention has been given to union "give-back" agreements in the automobile, steel, airline and other industries, less has been said about the sacrifices being made by non-union workers. Yet shared sacrifice is one of the most fundamental ingredients of a workable national consensus designed to deal successfully with our economic problems. From the May 24, 1982, issue of *U.S. News & World Report*, here is a sampling of sacrifices being made by non-union workers:

- ★ **Eastern Air Lines, which lost a record 51.4 million dollars in 1982's first quarter, froze salaries of 18,300 non-union employees for one year and is asking unionized employees to accept a similar freeze. Eastern hopes to save 70 million dollars as a result.**
- ★ **General Motors and Ford Motor Company, in addition to extracting major concessions from the United Auto Workers, suspended salary hikes and cost-of-living allowances, reduced paid time off and slashed other benefits for thousands of non-union technical, managerial and clerical workers.**
- ★ **Chicago-based Inland Steel Company, citing a 19 million dollar first quarter loss, froze salaries of more than 8,000 non-union technical, clerical and management employees until business conditions improve. The firm's 300 top managers received outright pay cuts.**
- ★ **Deere & Company, a manufacturer of farm machinery and industrial equipment based in Moline, Illinois locked in salaries of some 22,000 non-union employees and halted contributions to an employee stock-purchase plan — in effect, a 4.5 percent pay cut. The austerity drive, which resulted from declining farm equipment sales, is expected to last for a year.**
- ★ **Big Sky Airlines of Billings, Montana, cut pay by 5 to 15 percent for its 160 employees — from president to janitor, all of them non-union. Officials of the small computer airline blame the recession and troubles in the industry for a $250,000 loss during the first quarter this year.**
- ★ **Wolverine Aluminum of Lincoln Park, Michigan, hard hit by a slump in the housing and auto industries, reduced salaries of administrative employees by 5 to 10 percent and suspended cost-of-living allowances for all 300 non-union workers. The company also cut in half the number of managers who may participate in its leased-car program.**

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percent of those surveyed felt that they would be the beneficiaries of increased productivity.

In the 1930s, writes Columnist Ellen Goodman, "people shared a belief that everybody was in the same boat, that they were in 'it' together." But, Goodman continues:

> We don't seem connected by that sinew today, during our bad times. I don't hear a sense of collective destiny in the country. Now there are almost 10 million unemployed, and I'll bet two-thirds of them feel as if they were picked off by some economic sharpshooter instead of a massive bomb. Our troubles come with a deep sense of unfairness, a bitter edge.

Ultimately, the question of how we get out of our current economic dilemma, and who will bear the burden of whatever choice is made, is not a technical question but a value question. It has to do with the kind of society that we want for ourselves, for our children, for our grandchildren — and what price we are willing to pay to achieve it.

There is reason to be optimistic that a solution will be found. When the auto workers agreed to "give back" certain wage and benefit gains already secured from their employers, Tom Marsh, president of UAW local 262 in Detroit, described what was happening. "The members weren't too happy about making concessions," he said. "But they realized they couldn't have their cake and eat it too. They went for job security and profit sharing."

That attitude marks a sharp departure from the sense of entitlement that was fostered by the prosperity of the post-war years. People are beginning to appreciate both the nature and the seriousness of the problem and to recognize that sacrifices will have to be made in order to resolve it.

There must be broad agreement about how American industry can improve its performance. What remains is to develop a consensus about which strategy we will follow.

FOR FURTHER READING

For various perspectives on what went wrong in the American economy, see *The Reindustrialization of America*, by the Business Week Team (New York: McGraw Hill, 1982), Lester Thurow's *The Zero-Sum Society* (Baltimore: Penguin Books, 1981), and an article by Robert Lubar that appeared in the June 14, 1982 issue of *Fortune*, entitled "Why Unemployment Will Hang High."

For a journalistic perspective on the human impact of the decline of the industrial heartland, see "Collapse of Our Industrial Heartland," by William Serrin, in the June 6, 1982 issue of the *New York Times Magazine*.

There have been many different prescriptions about what should be done to revitalize the economy. For a detailed statement of the merits of a national industrial policy, see *Minding America's Business*, by Robert Reich and Ira C. Magaziner. For a thoughtful discussion of the human side of the productivity issue, see *Making America Work: Productivity and Responsibility*, by James O'Toole (New York: Continuum, 1981). For a more general perspective, see James Fallows' article, "American Industry: What Ails It, How To Save It," in the September, 1980 issue of the *Atlantic Monthly*. For a clear statement of the choices we may face, see "Social Progress vs. Economic Progress," by Amitai Etzioni, which appeared in the March/April, 1980 issue of *Social Policy*.

Two recent books provide a readable introduction to the impact of computer-based technologies. See *The Microelectronics Revolution*, edited by Thomas Forester (Cambridge: The MIT Press, 1981), and *The Micro Millenium*, by Christopher Evans (New York: Pocket Books, 1979). Finally, you might consult a special issue of *Scientific American* for September, 1982 which is devoted to the mechanization of work and its consequences.

CREDITS AND ACKNOWLEDGEMENTS

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"I know of no safe depository of the ultimate powers of society but the people themselves; and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it away from them, but to inform their discretion by education."

Th. Jefferson